

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CARROLL)	
COUNTY WATER DISTRICT #1 FOR AN)	CASE NO.
ADJUSTMENT OF RATES PURSUANT TO 807)	2021-00475
KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is given that, in accordance with the Commission's Order of April 27, 2022, the attached report containing the recommendations of Commission Staff regarding the Carroll County Water District #1's (Carroll District #1) proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's January 19, 2022 Order, Carroll District #1 is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Carroll District #1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAY 17 2022

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT ON
CARROLL COUNTY WATER DISTRICT #1

Carroll County Water District #1 (Carroll District #1) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 2,777 residential customers, 169 commercial customers, 39 industrial customers, and 48 public authorities, 32 multiple family dwellings, and one bulk loading station that reside in Carroll, Gallatin, and Owen counties, Kentucky.¹ On December 30, 2021, Carroll District #1 filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2021-00323.² Carroll District #1's last base rate increase was Case No. 9957.³ To ensure the orderly review of the application, the Commission established a procedural schedule by Order

¹ *Annual Report of Carroll District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

² Case No. 2021-00323, *Electronic Application of the Carroll County Water District No. 1 for Approval to Issue Securities in the Approximate Principal Amount of \$3,145,000 for the Purpose of Refinancing Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Sept. 17, 2021) at 7 and 8, ordering paragraph 5.

³ Case No. 9957, *Rates* (Ky. PSC Nov. 13, 1987).

dated January 19, 2022. On April 27, 2022, the procedural schedule was amended. Carroll District #1 responded to three requests for information from Commission Staff.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission Staff notes that Carroll District #1 reported a water loss of 11.62 percent in its 2020 Annual Report.⁴ In response to Commission Staff's Second Request for Information, Carroll District updated water loss to 12.25 percent.⁵ At 12.25 percent water loss, the total annual cost of water loss to Carroll District #1 is \$21,145.⁶

TEST YEAR

To comply with the requirements of 807 KAR 5:076, Section 9,⁷ Carroll District #1 used the calendar year ended December 31, 2020, as the basis for its application.

⁴ 2020 Annual Report at 58.

⁵ Carroll District #1's Response to Commission Staff's Second Request for Information (filed Mar 22, 2022) (Staff's Second Request), Item 1.

⁶

	Purchased Power	Chemicals
Water Production Expenses from 2020 Annual Report	\$ 164,482	\$ 8,134
Times: Total Water loss	12.25%	12.25%
Cost of Water Loss	\$ (20,149)	\$ (996)
Total Cost of Water Loss		\$ (21,145)

⁷ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Carroll District #1 determined in its application that it could justify a revenue increase of \$252,034, or 15.01 percent, over test-year normalized revenues of \$1,679,179, is warranted⁸ as shown in the table below. The proposed rates requested by Carroll District #1 would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$4.57, from \$36.00 to \$40.57, or approximately 12.69 percent.⁹ The proposed rate requested by Carroll District #1 would also increase the wholesale monthly bill using approximately 1,770,000 gallons per month by \$600.43, from \$4,000.20 to \$4,600.63, or approximately 15.01 percent.¹⁰

	<u>Carroll County Water District #1</u>
Pro Forma Operating Expenses	\$ 1,592,476
Plus: Avg. Annual Principal and Interest Payments	390,253
Additional Working Capital	<u>78,051</u>
Total Revenues Requirement	2,060,779
Less: Unmetered Water Revenue	(1,359)
Other Operating Revenue	(97,306)
Interest Income	<u>(30,901)</u>
Revenue Required From Water Sales	1,931,213
Revenue from Sales at Present Rates	<u>(1,679,179)</u>
Required Revenue Increase	<u>252,034</u>
Percentage Increase	<u><u>15.01%</u></u>

⁸ Application, Attachment No. 5.

⁹ Application, Attachment No. 1.

¹⁰ Application, Attachment No. 2.

To determine the reasonableness of the rates requested by Carroll District #1, Commission Staff performed a limited financial review of Carroll District #1's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable¹¹ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Carroll District #1's Pro Forma Operating Expenses and its Overall Revenue Requirement. Eddie Beavers reviewed Carroll District #1's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that Carroll District #1's required revenue from water sales is \$1,902,274 to meet the Overall Revenue Requirement of \$1,985,807 and that a \$223,095 revenue increase, or 13.29 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

¹¹ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

2. Monthly Water Service Rates. Based upon the revenue requirement calculated by Carroll District #1, Carroll District #1 proposed to revise its rate schedule and to increase all its monthly retail water service rates through a modified commodity demand cost of service study (COSS) and to increase its monthly wholesale water service rates by the overall requested percentage increase in the revenue requirement of 15.01 percent.

Carroll District #1 proposed to revise its monthly water service retail rate design through a COSS performed by Alan Vilines, a consultant with the Kentucky Rural Water Association. The study was performed following the guidelines and procedures recommended by the American Water Works Association (AWWA) in its Water Rates Manual M-1. The Commission has long recognized the AWWA guidelines as a reasonable method for ratemaking.¹² The COSS was used as a guide to calculate only the retail water service rates.

A COSS is used to analyze the utility's expenses and allocate these expenses according to three classifications: Commodity, Demand, and Customer. These classifications are used to assist in alleviating any cross subsidization between retail customer classes. Commodity costs are those directly associated with the cost of water. Demand Costs are those associated with providing the facilities to meet the peak demands placed on the system. Customer costs are those incurred to serve customers regardless of the volume of water used.

¹² Case No. 2020-00021, *Electronic Alternative Rate Adjustment Filing of Farmdale Water District*, (Ky. PSC Jul. 7, 2020).

Because the COSS only examined the retail rates, Carroll District #1 proposed to increase the wholesale water service rate by 15.01 percent, or an across-the-board increase that represents the overall percentage increase in the revenue requirement. Carroll District #1 calculated the overall wholesale revenue with the 15.01 percent increase, subtracted this from the overall revenue requirement needed from rates, and applied the difference in revenue to the retail rates.

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that the method is unreasonable and in the absence of a COSS. In this instance, Carroll District #1 did perform COSS, but only for the revision of its retail water service rates and then applied a different approach to revise its wholesale water rates. It is Commission Staff's opinion that it is more thorough for a COSS to incorporate both retail water service rates and wholesale water service rates so that the costs are allocated to the appropriate cost causer. Therefore, Commission Staff recommends the Commission require Carroll District #1 to perform a full COSS for all rate classes in its next base rate case.¹³

In the absence of sufficient information to perform a full COSS, Commission Staff followed the method proposed by Carroll District #1 and allocated the \$1,902,274 Revenue Required from Water Sales, an approximate 13.29 percent increase by first allocating the increase in wholesale water service rates of 13.29 percent, a total revenue of \$54,444, and then allocating the balance, or \$1,847,830, to the retail water service

¹³ Although the Commission does not normally require a COSS in alternative rate filing cases, Carroll District #1 has a wide variety of customer classes and Commission Staff believes there is a need to address potential subsidization of any class of customer.

rates and basing the allocations upon the filed COSS. The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from all water sales to recover the \$1,902,274 Revenue Required from Water Sales. These rates will increase a typical residential customer's monthly water bill from \$36.00 to \$39.40, an increase of \$3.40, or approximately 9.44 percent.¹⁴

3. Nonrecurring Charges: Following the Commission's recent decisions,¹⁵ Commission Staff has reviewed Carroll District #1's Nonrecurring Charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Commission Staff has reviewed the most recent cost justification information.¹⁶ Such adjustments result in the following revised Nonrecurring Charges:

Nonrecurring Charges

Connection/Turn On Charge	\$17.00
Connection/Turn On Charge, After Hours	118.00
Disconnection Charge	17.00
Meter Test Request Charge	17.00
Reconnection Charge	17.00
Reconnection Charge, After Hours	118.00
Re-Read Charge	17.00

¹⁴ The typical residential customer uses approximately 4,000 gallons per month.

¹⁵ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

¹⁶ Carroll District #1's Response to Commission Staff's First Request for Information (filed Feb 22, 2022) (Staff's First Request), Item 5.

Return Check Charge	7.00
Service Call/Investigation Charge	17.00
Service Call/Investigation Charge, After Hours	118.00

The adjustments to the Nonrecurring Charges result in a decrease to the charges and an increase to the total revenue requirement of \$31,470 as shown below. Staff recommends that Carroll District #1 should adjust its Nonrecurring Charges to those found in the Appendix to this report.

	Num.	Current Rate	Total	Revised Rate	Pro Forma Adjustments	Pro Forma
Miscellaneous Service Revenues:						
Connection/Turn On Charge	344	\$65	\$22,360	\$17	(\$16,512)	\$5,848
Disconnection Charge	194	\$65	\$12,610	\$17	(\$9,312)	\$3,298
Reconnection Charge	72	\$65	\$4,680	\$17	(\$3,456)	\$1,224
Returned Check Charge	15	\$25	\$375	\$7	(\$270)	\$105
Service/Call Investigation Charge	39	\$65	\$2,535	\$17	(\$1,872)	\$663
ServiceCall/Investigation Charge After Hours	4	\$130	\$520	\$118	(\$48)	\$472
Total Miscellaneous Service Revenues			\$43,080		(\$31,470)	\$11,610

PRO FORMA OPERATING STATEMENT

Carroll District #1's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Staff, appears below.

	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Unmetered Water Revenue	\$ 1,359			\$ 1,359
Total Metered Sales	1,663,354	\$ (34,440)	(A)	1,628,914
Sales for Resale	50,265			50,265
Other Water Revenues				
Forfeited Discounts	8,550	31,114	(B)	39,664
Misc. Service Revenues/Other Water Revenues	55,584	(31,470)	(C)	
		<u>(12,504)</u>	(C)	<u>11,610</u>
Total Operating Revenues	<u>1,779,112</u>	<u>(47,300)</u>		<u>1,731,812</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	478,016	33,521	(D)	511,537
Salaries and Wages - Officers	16,050	150	(E)	16,200
Employee Pensions and Benefits	368,079	(159,512)	(F)	
		(22,118)	(G)	
		(4,513)	(H)	181,936
Purchased Water	4,910			4,910
Purchased Power	164,482			164,482
Chemicals	8,134			8,134
Materials and Supplies	87,761			87,761
Contractual Services	67,847	2,967	(I)	70,814
Rental of Building/Real Property	151			151
Rental of Equipment	4,668			4,668
Transportation Expenses	22,980			22,980
Insurance	35,803			35,803
Bad Debt	22,772			22,772
Miscellaneous Expense	25,493			25,493
Total Operation and Maintenance Expenses	<u>1,307,146</u>	<u>(149,505)</u>		<u>1,157,641</u>
Depreciation	443,605	(97,976)	(J)	345,629
Taxes Other Than Income	41,877	2,564	(K)	44,441
Utility Operating Expenses	<u>1,792,628</u>	<u>(244,917)</u>		<u>1,547,711</u>
Net Operating Income	<u>(13,516)</u>	<u>197,616</u>		<u>184,100</u>
Interest and Dividend Income	<u>30,901</u>			<u>30,901</u>
Income Available to Service Debt	<u>\$ 17,385</u>	<u>\$ 197,616</u>		<u>\$ 215,001</u>

(A) Billing Analysis Adjustment. Carroll District #1 proposed to decrease its test-year revenues from water sales of \$1,663,354 by \$34,440 to reflect the billing analysis provided with the application. Carroll District #1's treatment of this adjustment

meets the ratemaking criteria of being known and measurable and Commission Staff accepts the adjustment in Pro Forma operations.

(B) Forfeited Discounts. Carroll District #1 proposed an adjustment to increase Late Fees by \$33,172 in order to annualize late fees collected.¹⁷ During the test year Carroll District #1 reported \$8,550 in late-payment penalties.¹⁸ Given that the test year occurred during the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic.¹⁹ Carroll District #1 increased the 2020 revenue to match the 2019 late-fee revenue. Commission Staff proposes to normalize the revenue using a three-year average of the reported income from late fees in the years 2017, 2018, and 2019.²⁰ Based upon a three-year average of \$39,664, Commission Staff increased Forfeited Discounts by \$31,114.

Year	Late Fees Collected
2017	\$ 39,725
2018	37,544
2019	41,722
Average Late Fees Collected	39,664
Test Year Late Fees Collected	(8,550)
Late Fees Adjustment	\$ 31,114

¹⁷ Application, Attachment No. 5, Adjustment B.

¹⁸ Carroll District #1's Response to Commission Staff's First Request, Item 5.

¹⁹ Case 2020-00085, *Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), at 3.

²⁰ Carroll District #1's Response to Commission Staff's Second Request, Item 2.

(C) Miscellaneous Service Revenues/Other Water Revenues. Carroll District #1 reported that it collected \$61,318 from Nonrecurring Charges during the test year; however, in their 2020 Annual Report, Carroll District #1 reported revenue of \$64,134.²¹ The \$61,318 included \$8,860 for Damage to Meters and \$1,716 for Meter Relocation Revenues.²² These amounts should not be included as revenues rather capitalized. In addition, the \$61,318 also included \$7,862 for Late Payment Charges,²³ addressed in Adjustment (B). As shown above, the adjustments to the Nonrecurring Charges result in a decrease to Miscellaneous Service Revenues/Other Water Revenues of \$31,470. Additionally, \$10,576 for the capitalized items was removed and (\$1,928) to normalize the revenue for a total pro forma adjustment of (\$12,504).

(D) Salaries and Wages - Employees. Carroll District #1 proposed an adjustment increasing Salaries and Wages - Employees by \$29,633.²⁴ The adjustment is proposed to account for changes in employee wages. Subsequent to the test year, one part-time employee left Carroll District #1 employment²⁵ and employees received an increase in salaries.²⁶ Based upon this information, Commission Staff calculated pro forma Salaries and Wages-Employees expense of \$511,537. Therefore, Commission Staff made an increase to Salaries and Wages-Employees of \$33,521 as shown below.

²¹ Carroll District #1's Response to Commission Staff's First Request, Item 4.

²² Carroll District #1's Response to Commission Staff's First Request, Item 4.

²³ Carroll District #1's Response to Commission Staff's First Request, Item 4.

²⁴ Application, Attachment No. 5, Adjustment C.

²⁵ Carroll District #1's Response to Commission Staff's First Request, Items 1f.

²⁶ Carroll District #1's Response to Commission Staff's First Request, Item 1g

<u>Commissioners</u>	<u>Pro Forma Salaries</u>
Stephen Doug Terry	\$ 1,800
Joe C. Raisor	1,800
Gilbert England	1,800
James R. Sapp	1,800
Toby M. Lewis	1,800
Kim Ballard	1,800
Darrell Lykins	1,800
Mike Kelley	1,800
Barry Brown	<u>1,800</u>
Total	\$ 16,200
Test Year Salaries	<u>(16,050)</u>
Adjustment	<u><u>\$ 150</u></u>

(F) Employee Pensions and Benefits - County Employees Retirement System (CERS). Carroll District #1 proposed two adjustments to Employee Pensions and Benefits: (1) a decrease of \$180,854 in order to account for Governmental Accounting Standards Board (GASB) reporting requirements for retirement plan liabilities instead of an actual payment to CERS;²⁸ and (2) an adjustment to increase Employee Pensions and Benefits by \$21,317 in order to account for the increase in retirement contributions due to the increase in Salaries and Wages proposed.²⁹ Commission Staff combined both adjustments into a single adjustment. As explained in Adjustment (D) above, Commission Staff increased Salaries and Wages - Employees to \$511,537. Including the increase to Adjustment (D) Commission Staff calculated the pro forma CERS contribution amount of \$136,836. Therefore, Commission Staff decreased Employee Pensions and Benefits by

²⁸ Application, Attachment No. 5, Adjustment D.

²⁹ Application, Attachment No. 5, Adjustment E.

\$159,512 as shown below. Commission Staff recorded the test year CERS contributions by combining accounts 1-604-005 Reimburse EE Retirement of \$115,494, 1604-001 Employee Benefit - Pension GASB 68 of \$142,056, and 1605-001 OPEB Expense - GASB 75 of \$38,798.³⁰

<u>CERS Contribution</u>	
Pro Forma Salaries and Wages- Employees	\$ 511,537
Multiplied by: Employer Contribution Rate Fiscal Year 2022	<u>26.75%</u>
Pro Forma CERS- Employer Contribution	136,836
Less: Test Year CERS Contribution	<u>(296,348)</u>
Employee Pensions and Benefits Adjustment	<u><u>\$(159,512)</u></u>

(G) Employee Pensions and Benefits- Insurance. Carroll District #1 currently pays 100 percent for single health and dental insurance premiums. Carroll District #1 proposed an adjustment to reduce Employee Pensions and Benefits by \$19,693 in order to be consistent with the Bureau of Labor Statistics' national average for an employer's share of health insurance premiums.³¹ The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.³²

³⁰ Carroll District #1's Response to Commission Staff's First Request, Item 1b.

³¹ Application, Attachment No. 5, Adjustment F.

³² Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

Consistent with this precedent, Commission Staff agrees with Carroll District #1’s methodology but calculated a different amount. Commission Staff reduced Carroll District #1’s current single health insurance premiums by 22 percent,³³ family health insurance premiums by 34 percent,³⁴ and dental insurance premiums by 60 percent³⁵ as shown in the calculation below. Commission Staff calculated a test-year amount of \$70,262.³⁶ Accordingly, Commission Staff decreased Employee Pensions and Benefits by \$22,118.

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 657	22%	\$ (144)	\$ 513
Family Health Insurance	5,200	34%	(1,768)	3,432
Dental and Vision Insurance	167	60%	(100)	67
Total Pro Forma Monthly Premium				4,012
Times: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				48,144
Less: Test Year Health and Dental Insurance Premium				<u>(70,262)</u>
Adjustment				<u>\$ (22,118)</u>

³³ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

³⁴ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

³⁵ Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC Jan. 25, 2019).

³⁶ Carroll District #1’s Response to Commission Staff’s First Request, Items 1b.

#	Account	Amount
1-604-001	Insurance-EE Health	\$ 66,157
1-604-300	Dental Insurance	4,105
		<u>\$ 70,262</u>

(H) Employee Pensions and Benefits - Commissioners' Benefits. Carroll

District #1's board of commissioners consist of nine members to whom Carroll District #1 provides dental, Federal Insurance Contributions Act (FICA), Medicare, and mileage during the test year totaling \$4,513.³⁷ In Case No. 2019-00268,³⁸ the Commission found that:

Since water district commissioners are vested with all relevant powers to manage and oversee water districts,³⁹ except for the power to fix their salary authorized by KRS 74.020(6), which is assigned to the county judge executive and fiscal court,⁴⁰ a water district would be unable to provide its commissioners health insurance and other similar benefits without an official action by the water district commissioners.⁴¹ Thus, by prohibiting water district commissioners from participating in official actions that directly benefit themselves financially, the General Assembly effectively prohibited water districts from receiving additional benefits to compensate them for their work on the board, which further indicates the General Assembly's intent to limit the total compensation of water district commissioners to amounts specifically authorized by statute. The Commission finds that the General Assembly intended to limit water districts' total compensation to commissioners for their service on a water district's board

³⁷ Carroll District #1's Response to Commission Staff's First Request, Item 1j.

³⁸ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

³⁹ KRS 74.020(1) ("A water district shall be administered by a board of commissioners which shall control and manage the affairs of the district."); KRS 74.070 ("All corporate powers of the water district shall be exercised by, or under the authority of, its commission."); see also KRS 65A.080(1) (requiring the governing body of each "special purpose government entity" to adopt a budget and prohibiting any "special purpose government entity" from expending funds in a manner inconsistent with their budget and any amendment thereto).

⁴⁰ See KRS 74.020(6)

⁴¹ KRS 74.020(6) presumably gives the county judge executive and fiscal court the authority to fix the salary of the water district commissioners to avoid just this issue. Further, while KRS 74.050 authorizes the water district board to establish the additional compensation, if any, to be paid to the treasurer of the board, the treasurer could avoid violating the prohibition against taking official actions that benefit him financially by properly recusing himself from such an action. Conversely, there would be no viable way for water district commissioners to provide themselves insurance benefits without involving themselves in the decision to do so.

to amounts specifically authorized by KRS Chapter 74. Therefore, the Commission finds that Knott District may not offer benefits to the Commissioners on the Knott District Board of Commissioners pursuant to KRS Chapter 74 and should cease doing so immediately.

Carroll District #1 was not able to locate any record of how this benefit was initially authorized. Carroll District #1's General Manager reviewed minutes going back to 2006 and was unable to find any record of the commission's benefits.⁴²

The Commission has found that members of a water district's board of commissioners are not entitled to receive any compensation other than that specifically authorized under KRS Chapter 74.⁴³ Therefore, Commission Staff decreased Employee Pensions and Benefits by \$4,513 as shown below. In addition to disallowing the expenses, Commission Staff recommends the Commission to order Carroll District #1 to discontinue providing the water district commissioners any additional compensation aside from the maximum allowable pursuant to KRS 74.020(6).⁴⁴

⁴² Carroll District #1's Response to Commission Staff's Second Request, item 5.

⁴³ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020) at 22.

⁴⁴ KRS 74.020(6); Each commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600), which shall be paid out of the water district fund, except that beginning January 1, 1999, and subject to subsection (9) of this section, each commissioner who completes during an educational year a minimum of six (6) instructional hours of water district management training approved by the Public Service Commission may receive an annual salary of not more than six thousand dollars (\$6,000) to be paid out of the water district fund. An educational year shall begin on January 1 and end on the following December 31. In the case of single-county districts, which shall be deemed to include districts described in subsection (1)(c) of this section, the salary shall be fixed by the county judges/executive with the approval of the fiscal court; in multicounty districts, it shall be fixed by the agreement between the county judges/executive with the approval of their fiscal courts. In fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature.

Test Year Commissioner's Benefits

COMMISSIONERS 2020	FICA	MEDICARE	DENTAL	MILEAGE	TOTAL
STEPHEN DOUG TERRY	\$112	\$26	\$287	\$152	\$577
JOE C. RAISOR	112	26		69	207
GILBERT ENGLAND	112	26	287	138	563
JAMES R. SAPP	112	26	287	127	551
TOBY M. LEWIS	112	26	287	117	542
RON COURTNEY	102	24		97	223
KIM BALLARD	112	26	287	386	811
DARRELL LYKINS	112	26	287	76	501
MIKE KELLEY	112	26	287	114	539

Total Test Year Commissioner Benefits paid \$ 4,513

(l) Rate Case Expense. Carroll District #1 proposed an adjustment to increase Contractual Services by \$2,967 in order to account for the projected rate case expense amortized over three years.⁴⁵ The only estimated rate case expense is a lump sum charge from Kentucky Rural Water Association (KRWA) to perform the rate study and assist with the application. The total charge for these services is \$8,900⁴⁶ and will be billed at the completion of the rate case.⁴⁷ Commission Staff agrees with Carroll District #1's proposed adjustment and increased Contractual Services by \$2,967.

Rate Case Expense	\$ 8,900
Divide by: 5 years	<u>3</u>
Pro Forma Expense Adjustment	<u>\$ 2,967</u>

⁴⁵ Application, Attachment No. 5, Adjustment G

⁴⁶ Carroll District #1's Response to Commission Staff's Second Request, CC_2.3_-_KRWA_Proposal.pdf.

⁴⁷ Carroll District #1's Response to Commission Staff's Second Request, Item 3c.

(J) Depreciation Expense. Carroll District #1 proposed an adjustment to decrease Depreciation expense by \$54,144 in order to bring assets' lives to the midpoint of the recommended ranges.⁴⁸ Carroll District #1 reported its test year Depreciation Expense of \$443,605.⁴⁹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities*. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff found several additional assets that were not depreciated at the NARUC range midpoints. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. After further review of Carroll District #1's plant ledger, Commission Staff decreased Carroll District #1's Depreciation Expense by \$97,976 to \$345,629 as shown below.⁵⁰

⁴⁸ Application, Attachment No. 5, Adjustment H.

⁴⁹ Application, Attachment No. 5.

⁵⁰ The capitalized items discussed above for Adjustment (C) were accounted for in the depreciation analysis.

Asset Group	Current Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land Rights (Acct. 303)	-	-	-
Structures & Improvements (Acct. 304)	\$ 7,752	\$ 1,124	\$ 8,876
Wells & Springs (Acct. 307)	15,376	2,621	17,997
Pumping Equipment (Acct. 311)	25,207	(7,621)	17,586
Water Treatment Eq (Acct. 320)	2,950	(395)	2,555
Hydrants (Acct. 335)	491	(98)	393
Distribution Reservoirs & Standpipes (Acct. 330)	63,035	(2,551)	60,484
Transmission & Distribution Mains (Acct. 331)	203,751	(50,368)	153,383
Transmission - Fire Mains (Acct. 331)	153	(31)	122
Services (Acct. 333)	8,985	1,520	10,506
Office Furniture & Equipment (Acct. 340)	4,662	(1,413)	3,249
Meters (Acct. 334)	46,994	(30,477)	16,517
Meter Installation (Acct. 334)	9,775	(1,879)	7,895
Transportation Equip (Acct. 341)	34,257	(6,832)	27,425
Power Operated Equip (Acct. 345)	8,644	(1,729)	6,915
Other Tangible Plant (Acct. 348)	11,574	152	11,726
Depreciation Total	<u>\$ 443,605</u>	<u>\$ (97,976)</u>	<u>\$ 345,629</u>

(K) Taxes Other Than Income - FICA. Carroll District #1 proposed an adjustment increasing Taxes Other Than Income by \$621 in order to account for the increase in payroll taxes due to the increase in Salaries and Wages expense.⁵¹ However, as explained in Adjustment (D) above, Commission Staff increased Salaries and Wages expense by \$33,521. Therefore, Commission Staff calculated an increase to Taxes Other Than Income of \$2,564 as shown below.

<u>Taxes Other Than Income- FICA</u>	
Pro Forma Wage Adjustment	\$ 33,521
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
FICA Adjustment	<u>\$ 2,564</u>

⁵¹ Application, Attachment No. 5, Adjustment C.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital;⁵² (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	<u>Carroll County Water District #1</u>	<u>Commission Staff</u>	
Pro Forma Operating Expenses	\$ 1,592,476	\$ 1,547,711	
Plus: Avg. Annual Principal and Interest Payments	390,253	365,080	(1)
Additional Working Capital	<u>78,051</u>	<u>73,016</u>	(2)
 Total Revenues Requirement	 2,060,779	 1,985,807	
Less: Unmetered Water Revenue	(1,359)	(1,359)	
Other Operating Revenue	(97,306)	(51,274)	
Interest Income	<u>(30,901)</u>	<u>(30,901)</u>	
 Revenue Required From Water Sales	 1,931,213	 \$ 1,902,274	
Revenue from Sales at Present Rates	<u>(1,679,179)</u>	<u>\$ (1,679,179)</u>	
 Required Revenue Increase	 <u>252,034</u>	 <u>223,095</u>	
Percentage Increase	<u>15.01%</u>	<u>13.29%</u>	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Carroll District #1 had two outstanding loans from the

⁵² The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

Kentucky Infrastructure Authority (KIA) loans: #F13-007⁵³ and #C18-002.⁵⁴ Carroll District #1 had one outstanding loan from Kentucky Rural Water Finance Corporation (KRWFC),⁵⁵ and two outstanding Waterworks revenue bond: Series 2005B⁵⁶ and Series 2010.⁵⁷ In its application, Carroll District #1 requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2023 through 2027.⁵⁸ Commission Staff agrees with the methodology Carroll District #1 proposes. As shown below, Commission Staff calculated an Average Principal and Interest Payment of \$365,080.

2023-2027 Five-Year Average of Debt Payments											
Year	RECD Series 2005B		RECD Series 2010		KIA Loan #F13-007		KIA Loan #C18-002		KRWFC 2021D		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2023	6,500	10,148	23,000	20,202	7,116	1,321	119,438	4,767	135,000	109,835	437,328
2024	7,000	9,880	24,000	19,754	7,170	1,268	122,141	2,065	145,000	102,815	441,092
2025	7,000	9,591	25,000	19,286	7,224	1,214			150,000	95,275	314,589
2026	7,500	9,302	26,000	18,798	7,278	1,160			160,000	87,475	317,513
2027	8,000	8,993	27,000	18,291	7,333	1,105			165,000	79,155	314,877
Totals											1,825,398
Divide by: 5 years											5
Average Annual Principal and Interest Payments											<u>365,080</u>

⁵³ Case 2014-00174, *Application of Carroll County Water District #1 for Approval of Interlocal Agreements and for Authority to Incur Debt*, (Ky. PSC Jul. 21, 2014).

⁵⁴ Case 2017-00409, *Application of Carroll County Water District No. 1 for Approval to Refinance Debt to Kentucky Infrastructure Authority*, (Ky. PSC Nov. 30, 2017).

⁵⁵ Case 2021-00323, *Electronic Application of the Carroll County Water District No. 1 for Approval to Issue Securities in the Approximate Principal Amount of \$3,145,000 for the Purpose of Refinancing Outstanding Obligations of the District Pursuant to The Provisions of KRS 278.300 And 807 KAR 5:001* (Ky. PSC Sep. 17, 2021).

⁵⁶ Case 2005-00324, *the Application of Carroll County Water District No. 1 for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Aug. 26, 2005).

⁵⁷ Case 2009-00447, *Application of Carroll County Water District No. 1 for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023*, (Ky. PSC Dec. 16, 2009).

⁵⁸ Application, Attachment No. 5, Table B, Debt Service Schedule.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Carroll District #1 requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to KIA.

Following the Commission's historic practice, Commission Staff agrees with Carroll District #1's methodology; however, Commission Staff utilized the average principal and interest payments recalculated above. Therefore, as shown below, \$73,016 is included in the revenue requirement.

Average Annual Principal and Interest	\$ 365,080
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	438,096
Less: Average Annual Principal and Interest Payments	<u>(365,080)</u>
Additional Working Capital	<u><u>\$ 73,016</u></u>

Signatures

/s/ William M. Foley

Prepared by: William Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00475 DATED MAY 17 2022

The following rates and charges are prescribed for the customers in the area served by Carroll County Water District #1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	1 ,000 Gallons	\$	16.30	Minimum Bill
Next	9 ,000 Gallons		0.00770	Per Gallon
Next	40 ,000 Gallons		0.00553	Per Gallon
Over	50 ,000 Gallons		0.00346	Per Gallon

1-Inch Meter

First	5 ,000 Gallons	\$	54.85	Minimum Bill
Next	5 ,000 Gallons		0.00770	Per Gallon
Next	40 ,000 Gallons		0.00553	Per Gallon
Over	50 ,000 Gallons		0.00346	Per Gallon

2-Inch Meter

First	15 ,000 Gallons	\$	121.05	Minimum Bill
Next	35 ,000 Gallons		0.00553	Per Gallon
Over	50 ,000 Gallons		0.00346	Per Gallon

3-Inch Meter

First	30 ,000 Gallons	\$	204.00	Minimum Bill
Next	20 ,000 Gallons		0.00553	Per Gallon
Over	50 ,000 Gallons		0.00346	Per Gallon

4-Inch Meter

First	50 ,000 Gallons	\$	314.60	Minimum Bill
Over	50 ,000 Gallons		0.00346	Per Gallon

Wholesale Rates

\$	0.00256	Per Gallon
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Nonrecurring Charges

Connection/Turn On Charge	\$17.00
Connection/Turn On Charge, After Hours	118.00
Disconnection Charge	17.00
Meter Test Request Charge	17.00
Reconnection Charge	17.00
Reconnection Charge, After Hours	118.00
Re-Read Charge	17.00
Return Check Charge	7.00
Service Call/Investigation Charge	17.00
Service Call/Investigation Charge, After Hours	118.00

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